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ABSTRACT

This report addresses concerns that the Department of Education may have erroneously made overpayments of as much as $400 million to schools participating in the William D. Ford Federal Direct Loan Program (FDLP) during the Department's conversion to a new computerized payment system. The investigation found that because the transition to the new system took substantially longer than anticipated, schools were authorized to draw down within existing guidelines as many funds as they expected to disburse during the transition period. The $400 million was the approximate amount that FDLP schools drew down to meet their needs during this transition period. However, overpayments of $6 to $10 million were made when a payment list was erroneously processed twice. The Department is currently in the process of recovering these overpayments. (DB)

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ED 429 502

B-281808

February 17, 1999

The Honorable William Goodling
Chairman, Committee on Education and
the Workforce
House of Representatives

The Honorable Howard P. McKeon
Chairman, Subcommittee on Postsecondary Education, Training
and Life-Long Learning
Committee on Education and the Workforce
House of Representatives

The Honorable Pete Hoekstra
Chairman, Subcommittee on Oversight and
Investigations
Committee on Education and the Workforce
House of Representatives

Subject: Direct Student Loans: Overpayments During the Department of Education's Conversion to a New Payment System

This letter responds to your request that we investigate reports of erroneous Department of Education payments to schools participating in the William D. Ford Federal Direct Loan Program (FDLP). These payments were reported to have been made during the Department's conversion to a new computerized payment system. Specifically, you asked us to review the transition from the old payment system to the new payment system and to determine whether the Department erroneously disbursed as much as $400 million to schools participating in the direct loan program during the conversion.

The Department provides funds to students to help finance their postsecondary education. Schools draw down these funds from the government to use as needed for students who have loans under FDLP. The Department estimates that during fiscal year 1998, $11 billion in direct loan funds were available for three million loans to students. Recognizing the need to update the computer system

HE 031 994

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used to disburse and track these funds, the Department designed a new financial management and payment system—the Education Central Automated Processing System/Grant Administration and Payment System (EDCAPS/GAPS), which became fully operational in May 1998. Payments are now made to schools that participate in FDLP through GAPS.

In summary, the transition to GAPS took longer than the Department anticipated. It was originally planned for a 2-week period in February 1998 but was delayed about 4 months to May 1998 because of difficulties the Department encountered in incorporating its data files into the new computer system. Schools were authorized to draw down within existing guidelines as many funds as they expected to disburse during the transition period. The Department did not erroneously disburse $400 million to schools. The $400 million was the approximate amount that FDLP schools drew down to meet their needs during the transition to GAPS. However, overpayments of about $6 million to $10 million were made when the Department's contractor inadvertently processed a payment list that it had already processed for disbursement. Aware of these overpayments, the Department contacted all schools that may have received an overpayment and asked them to return it. The Department plans to identify and recover any remaining overpayments during its end of program year reconciliation process starting July 31, 1999.

BACKGROUND

EDCAPS is a centralized financial management system designed to integrate the Department's separate financial processes, including financial management, contracts and purchasing, grants administration, and payment management. Before EDCAPS was implemented, the Department relied on several stand-alone systems to perform these functions, including the Payment Management System (PMS), which processed grants and other payments. The Department concluded that integrating these systems would enable it to improve such tasks as more quickly processing financial transactions with other program participants and conducting annual program account reconciliations. It integrated these functions into EDCAPS, a single system with four modules, one of which is GAPS.

GAPS is the module for controlling and processing grants and other payments to program participants. Its functions include the obligation of award authorizations, disbursement of funds, annual certification of expenditures, and final grant closeouts. Schools can access GAPS on line to request and receive funds and to report expenditures, retrieve award and payment histories, and obtain immediate updates and notifications of changes in awards.

The Department categorizes schools by their loan origination status. That is, the Department allows some schools to draw down FDLP funds on their own, originating them directly, while it requires others—depending on their experience

or compliance record in administering the federal student aid programs—to request drawdowns through a loan origination center (LOC).[1] A school or the LOC enters the drawdown request in GAPS. The Department processes the request and disburses funds directly to the bank account that the school designates. Schools reconcile their FDLP balances with the Department's records, generally on a monthly basis, and the Department performs an end of program year reconciliation.

To complete our work, we (1) obtained and reviewed Department documents on the transition to and implementation of GAPS; (2) met with officials from the Department's Office of Postsecondary Education (OPE), Office of Chief Financial Officer, Office of Inspector General, and contract support staff; and (3) reviewed FDLP drawdown activity from February through April 1998. We conducted our work between July and December 1998 in accordance with generally accepted government auditing standards.

THE TRANSITION TO GAPS TOOK LONGER THAN PLANNED

The Department first announced in January 1998 that it planned to switch from PMS to GAPS for all grants and other payments. It estimated that this would entail a 2-week shutdown of PMS in February, during which neither system would be operational and no payments would be made to schools. Before the shutdown, the Department authorized direct loan schools to draw down within its existing guidelines as many funds as they reasonably expected to disburse to eligible borrowers during this 2-week period. It also waived certain cash management requirements that schools must follow in drawing down and disbursing loan and grant funds until GAPS became operational. For example, the Department waived the requirement that schools promptly return excess cash during this period and also said that it would not assess liability payments (or interest) for their failure to return excess cash.[2]

On March 2, 1998, the Department announced that the transition to GAPS would be postponed because of unforeseen technical problems. Although the Department did not provide details about these technical problems at the time,

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[1]The LOC is operated by Electronic Data Systems, Inc. (EDS), a private contractor. At the time of the system conversion, the Department had designated only one LOC.

[2]Excess cash balances occur when schools draw down more federal funds than they are able to disburse to students within a given time period. Direct loan schools are required to return program funds they will not need for disbursement to students generally within 3 business days after receiving them in the school's account.

officials told us that the problems included difficulties in converting PMS data into the GAPS data layout and in promptly processing changes in schools' loan origination status.

On March 26, 1998, the Department announced that it would attempt the conversion again beginning on April 23, 1998. As before, schools were allowed to draw down as many funds as they anticipated needing and the same cash management requirements were waived. In the first half of May 1998, GAPS became fully operational and all direct loan payments are now made through GAPS.

OVERPAYMENTS MADE TO SCHOOLS ARE BEING RECOVERED

We found no evidence to support the claim that the Department erroneously disbursed $400 million to FDLP schools. Officials in OPE have determined that the Department made between $6 million and $10 million in overpayments to schools for direct loans on one day in late February 1998, immediately before the first scheduled shutdown of PMS. In fact, $400 million was approximately the amount of funds schools drew down during the week before the February 1998 shutdown of PMS. This amount appears to be consistent with the Department's authorizing schools to draw down funds to meet their needs during the planned shutdown.

According to an official representing the LOC—Electronic Data Systems, Inc. (EDS)—the $6 million to $10 million in overpayments resulted from EDS's inadvertently reprocessing a drawdown request list that it had already processed for disbursement. As soon as EDS discovered the problem, it identified 176 schools that might have received duplicate payments. EDS staff telephoned each school, informed it of the problem, and instructed it to determine whether it had received any improper disbursements and to return any funds it would not disburse within 3 days.

According to OPE officials, some of the overpayments were returned when schools developed excess cash balances. Because the Department believes that the amount of money is not significant and will be recovered during the end of program year reconciliation process, it does not plan to undertake a separate review. The Department is planning to identify the schools and amounts involved when the program year ends on July 31, 1999. In addition, OPE officials told us that monthly statements are sent out to each direct loan school's chief financial aid officer to reconcile any differences between the school's records and the Department's program accounts. Whenever a school finds excess cash on hand, it must return the excess amount along with any interest due to the Department. Because of these processes and because this was an isolated instance, OPE

officials said that they do not believe a separate investigation to identify any unreturned overpayments is warranted. In our view, this is a reasonable decision.

In order to corroborate what we were told, we reviewed schools' drawdown activity to identify possible duplicate payments. For the period from mid-February through April 1998, we found instances in which schools made requests for more than one payment for the same amount within a few days of each other. Nearly all these payments were for less than $5,000. The total amount of these payments was less than $1 million. OPE officials advised us that they had no basis on which to suspect that these were duplicate payments because it is common practice for schools to make drawdowns for the same amount within several days. They added that this is a typical pattern consistent with requesting funds after a student is approved for a loan. Further, GAPS has built-in safeguards that do not allow a school to enter the system one day and draw down the exact same amount of funds more than once in that day. OPE and Office of Chief Financial Officer officials said that if this occurs, the school's request is immediately referred to a "holding file" for OPE staff review before granting the second drawdown.

In addition to the $6 million to $10 million in overpayments to schools, we learned of other problems the Department experienced during the conversion. For example, the Department identified two database problems. First, some bank account numbers and school identification numbers in PMS were not accurately converted when the database was shifted to GAPS. When PMS data were converted to GAPS data, some bank account numbers appeared as two different account numbers because of technical problems in reading spaces, hyphens, or similar characters in the PMS data. For example, a bank account number "012345" in PMS appeared as "012345" as well as "012-345" in GAPS, causing GAPS to read it as two account numbers rather than one. Consequently, multiple payments were sent to these schools' banks. Similar situations occurred in converting school identification numbers. Officials from the Office of Chief Financial Officer said that once this problem was discovered, the Department corrected the data errors within a couple of days and expects to recover all resulting overpayments.

Second, on several occasions, changes in schools' loan origination status were not promptly recorded in GAPS. When PMS was originally implemented, a change in a school's loan origination status was generally made only once a year. Over time, however, according to an OPE official, schools' loan origination status started changing more frequently. This may have caused some schools to receive duplicate payments for direct loans. For example, the OPE official explained, a direct loan school that was required to have the LOC request drawdowns might do so on a particular day. One or two days later, the same school could be assigned to the origination status that allows it to draw down funds on its own. If it did then draw down funds on its own and the contractor was unaware of the change in the school's

status, the school could receive two payments. After GAPS was fully implemented, the Department specified the dates when changes in schools' origination status will be effective and built a safeguard into its financial management system to capture these changes at about the time when they occur.

AGENCY COMMENTS

In a meeting with our staff on January 27, 1999, Department of Education officials from the Office of the Chief Financial Officer and the Office of Postsecondary Education provided comments on a draft of this letter. We incorporated their comments, which were generally editorial and technical in nature, as appropriate.

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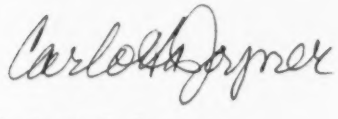
As arranged with your offices, we will send copies to interested congressional offices, the Secretary of Education, and the Director of the Office of Management and Budget, and we will provide copies to others on request. If you have any questions, please feel free to contact me or Joseph J. Eglin, Jr., assistant director, at (202) 512-7014. Other major contributors to this letter include Carolyn Blocker, Joel Marus, and Linda Stokes.



Carlotta C. Joyner
Director, Education and
Employment Issues

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